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FUTURE PROBLEMS OF THE LIVESTOCK INDUSTRY IN THE WEST

Department of Agriculture

An address by G. B. Thorne, Principal Agricultural Economist, Agricultural Adjustment Administration, before the Annual Convention of the American National Livestock Association at Rapid City, South Dakota, Thursday, January 10, 1935.

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The year 1934 will go down in history as one of the most critical ever experienced by the livestock industry. It was made severe for cattle and sheep men, not only because of the unprecedented drought, but also as a result of the status of the industry when the drought began to take its toll. We had experienced four years of economic depression which had reflected itself in the livestock industry through an almost uninterrupted decline in prices, as well as in the increasingly heavy burden of fixed charges borne by many producers. In resisting the declining level of values, producers withheld their livestock from the market. Thus, we entered the year 1934 with excessive supplies as well as a continued weak consumer demand. Cattle numbers had increased to the point where our calf producing plant was the largest on record, and sheep numbers also were near the peak of a production cycle. A worse year for the livestock industry to experience a drought of such proportions would have been difficult to imagine.

During the last six months, livestock producers, as well as Government agencies working in their interests, have been concentrating attention on relieving the current situation created by the drought. They have sought to bring about better balance between livestock and feed supplies. We are now reaching the point, however, where almost everything has been done that can be done to solve this phase of the problem. The time has now arrived when we should begin to appraise the consequences of the drought and the activities that have been necessary as a result of it, and try to foresee some of the major industry problems that are ahead.

It is no doubt impossible to see, even in outline, some of the problems of the next two or three years. There probably is considerable difference of opinion as to the consequences of the developments of the past year. However, it is not too soon to begin talking about them in an effort to foster a consensus of opinion, and to take steps to meet the situation so far as possible, through individual and collective action.

One thing is certain: the livestock population of the United States has been materially reduced during the past 12 months. The Bureau of Agricultural Economics estimates that cattle numbers have been reduced about 1.9 million head, which means that most of the increase from the low point of the production in 1928 has been eliminated within a single year. Federally inspected slaughter of cattle and calves, excluding Government slaughter, in 1934 was about 2-1/2 million head or about 18 percent larger than in 1933. Non-inspected commercial slaughter probably increased in about the same proportion. Government purchases in 1934 totaled about 8 million head. The proportion of cows and heifers in commercial slaughter was unusually large; about 80 percent of the cattle purchased by the Government was cows and

heifers. Thus, the reduction of cattle numbers on farms and ranches was largely in female cattle.

In contrast to the usual liquidation of cattle numbers, the geographical distribution of the reduction in 1934 was very uneven. This has an important bearing upon some of the problems that will develop in the near future. There was little or no decrease in the cattle population in the area east of the Mississippi River. There were wide variations in the reductions west of the River. The estimated number of cattle on farms and ranches in the states west of the Mississippi River on January 1, 1934, totaled about 39,600,000 head. Thus, if we assume that numbers remained the same east of the Mississippi River, a reduction of 10 million head would represent a reduction of about 25 percent in the area west of the River. In some sections, such as in the Dakotas, numbers are less than half those of a year ago. In the inter-mountain and Pacific states, the total reduction probably was smaller than in other areas where a reduction occurred, even though in some sections of these regions the reduction probably was nearly as large as in the Dakotas.

Sheep numbers also were reduced materially in 1934, and, as in the case of cattle, the bulk of the reduction occurred in the western states, and the rest in some areas of the Corn Belt, where the drought was most acute. The reduction in sheep numbers probably will total about 3 million head for the country as a whole.

In view of the fact that the livestock population remaining on farms is still large, in relation to the amount of feed available to carry them through the winter, and since livestock generally went into the winter in the poorest condition in many years, the percentage of calves and lambs dropped in the spring, which will be saved, is likely to be unusually small. Thus, the reduction in both the calf crop and lamb crop this year will come about both as a result of reduced breeding stock supplies and a reduction in the percentage of the young stock that is saved. Weather conditions and the feed situation in large areas during the remainder of the winter will have an important bearing upon what the toll from death losses will be. Severe weather conditions from now until spring could easily bring about a heavy mortality.

Hog supplies, which usually provide more than half the meat produced in the United States, also have been very sharply curtailed as a result of the adjustment program and the drought. The 1934 total pig crop was about 35 percent smaller than that of 1933, and a further decrease in the pig crop next spring is indicated by the December pig survey. Numbers on farms January 1, 1934, totaled about 57 million head. On the same date this year, numbers were probably around 40 million head.

As a result of the adjustment program and a relatively unfavorable hog-corn price ratio, the reduction in hog supplies began last spring before the drought developed. This made for a much more orderly liquidation in the hog industry than would have otherwise been the case. With the corn crop harvested for grain cut in half, a much larger market

supply of hogs in 1934 would have been inevitable if there had been no adjustment program. This would not only have been reflected in hog prices, but in prices of other livestock as well. Furthermore, the reduced spring farrowings released a substantial quantity of corn for livestock at a time when it was badly needed.

The reduction in corn acreage under the Corn-Hog Program was responsible for only a small proportion of the total reduction in feed production in 1934, because of the low yields of corn per acre and the use of the contracted acres for the production of emergency forage crops; so that, from the standpoint of the availability of feed supplies, the reduction in hogs under the program much more than offset the reduction in feed under the program.

The marked changes in livestock supplies are expected to result in materially higher prices of all kinds of livestock in 1935. Some rise in prices already has occurred as supplies have decreased during recent weeks. Peak prices for the year, however, are not likely to occur before late summer and autumn. If normal weather conditions are fairly general during the year, feed supplies next fall are likely to be plentiful and low in price in relation to livestock. With livestock numbers at a low level, this situation probably will create an improved demand for stocker and feeder cattle in the Corn Belt and a better demand for breeding cattle throughout the western half of the United States. Such an increased demand, along with small slaughter supplies, would mean materially higher prices for all cattle, especially the lower grades; and prices of cattle in the West will likely be high in relation to prices of cattle on the market, since producers in all areas where breeding stock has been depleted and where pastures and ranges recover, will begin to replenish their breeding herds.

This, of course, depends upon the extent of precipitation during the winter and spring. As you know, there is still a considerable deficiency in moisture in most of the western states, and the extent to which range conditions will be restored is uncertain. As far as the Corn Belt is concerned, records over the last 75 years indicate that the chances for a drought in 1935 are not increased by the fact that there was a drought in 1934. In years following other severe droughts, the tendency has been for yields of cultivated crops to return to normal or above. The recovery of pasture and hay supplies in the middle west, however, will be slower, due to the severe drought damage to permanent pastures and meadows, and to the scarcity of grass seed.

The extent to which livestock prices may rise in 1935 will be determined in part by the trend of business conditions, since the income of industrial workers is a major factor affecting livestock values. Substantial price advances are likely to occur, however, if industrial conditions are at least maintained.

The probabilities of higher prices should offer much encouragement to livestock owners from the standpoint of prospective financial returns, not only for 1935, but for a few years thereafter as well.

Naturally, the significance of a higher level of prices will vary greatly between regions and between producers within each region, and some important problems for the livestock industry in the West will arise. The producers who have been able to retain a major portion of their herds, in most cases will be in a very favorable position, but those producers who have been forced to liquidate most or all of their foundation stock will not welcome higher values, because of the financial difficulties to be encountered in building back their herds. Far more producers will be in this group than has ever been the case following periods of liquidation. With the conditions so prevalent as to involve almost all producers in some states, it will become an industry problem. Hence, it may be found desirable for the industry to develop ways and means of facilitating the efforts of cattlemen in depleted areas to build back their herds.

The stimulus to increase production that will come with higher livestock prices and plentiful supplies of feed is also likely to initiate a major upward swing in a cattle production cycle. In view of the prospects for a small calf crop in 1935, and for higher cattle prices during the year, an increase in total numbers on farms and ranges is not likely to occur before 1936, but a sharp increase that might get under way during that year could easily result in over-expansion a few years later. Hence, the industry might well give consideration in the near future to the advisability of taking steps to prevent over-expansion rather than wait until excessive supplies exist before taking action.

The problem of determining how much expansion in cattle numbers from present levels could be permitted before an over-supply would exist is a very difficult one, especially since we do not know what demand conditions will be three or four years from now. Under normal conditions of consumer demand and feed supplies, an expansion in numbers from the present level would be warranted. Considering the length of time that it will be necessary to expand production, it is possible that for a few years economic recovery will bring about enough improvement in consumer demand for meats to encourage considerable expansion of numbers and still have prices maintained near the level that is likely to prevail in 1935. There is a real danger, however, of production eventually expanding to the point where returns to producers will be unfavorable, and a period of liquidation will be necessary, as has been the usual sequence of events in the industry over a long period of years.

There are obviously several courses that can be followed in this connection. One would be to inaugurate, within the next year or two, a production control program which would provide for some expansion for the industry as a whole from the present level, but would limit the extent of the increase in numbers. Another method that could be followed would be to leave production unrestricted for at least the next year or two, since excessive supplies are now eliminated and there is considerable question as to what will be the most desirable level of production several years from now.

Still another alternative would be to concentrate attention on the use of land, which would call for a control of grazing in the

western states on private and state owned land as well as nationally owned land, and the formulation of programs for the eastern sections of the country that would prevent land from being cropped so intensively as has been the case during most of the post-war period.

The Agricultural Adjustment Administration has no preconceived views as to which of these policies, if any, should be adopted by the cattle industry. In the first place, it is still too early to appraise the full effects of the drought, although it is quite apparent that the consequences will be felt for several years to come. In the second place, the Agricultural Adjustment Administration will continue to follow the policy of being guided by producers in the adoption of adjustment programs.

In this connection, I should like to clarify the position of the Agricultural Adjustment Administration with respect to the clause included in the emergency cattle agreement, requiring the cooperation in future cattle adjustment programs of producers selling cattle to the Government in the drought program. I believe that most producers understand the reason for the inclusion of this clause in the agreement, but since there has been considerable comment in regard to it during recent months, the explanation will perhaps bear repetition.

As you well know, plans for a cattle adjustment program were recommended to the Department by the Cattlemen's Committee of Twenty-Five about the middle of May. These plans called for a downward adjustment of cattle numbers and the development of contracts with individual cattle growers by which they would agree to adjust production and qualify for benefit payments from the Government. This pending program, based on recommendations of the Cattle Producers' Committee, prompted the origin of the much discussed clause which pledged farmers selling cattle to the Government to cooperate in future adjustment plans.

At the time the drought first developed, it was not known how long the drought would continue. In fact, it might have broken without serious national effects almost any day. An understanding was reached between the committee of producers and officials of the Adjustment Administration that aid would first be rendered to cattle producers in the drought territory, and that the formulation of details of the adjustment program would be postponed until the consequences of the drought could be adequately determined. Therefore, at the beginning, the buying program was considered as a joint measure of drought relief and production adjustment. We wanted to be in a position where, if the drought did break, it would be possible to swing back into a cattle adjustment program without unnecessary confusion and delay.

The cooperation clause, therefore, was not designed to coerce the cattle industry into some future adjustment program which producers did not want, but to correlate emergency plans with the program recommended.

Officials of the Adjustment Administration know full well that no adjustment program can succeed if it does not have the approval of

an overwhelming majority of the producers. The policy of the Agricultural Adjustment Administration will continue to be to adopt no program that lacks the approval of growers themselves. If producers do not recommend or approve an adjustment program for cattle before June 1, 1936, the requirement for cooperation, as contained in the emergency cattle agreement, will be null and void.

In the meantime, the clause has made it possible for us to keep faith with the cattle producers' committee by providing the necessary means of keeping the two programs dovetailed. It also provided ample administrative justification for making to producers "benefit payments" which were free from claims of lien holders, so that the payments could be used by the producers as they saw fit, no matter if the stock was mortgaged beyond its full value.

One of the bright spots for the cattle business which has grown out of developments in 1934 is the progress that has been made in eliminating inferior and diseased animals from the herds of the country. Those who have sold cattle to the Government have tended to sell the old and inferior animals and retain the better cattle in their herds. Important progress also has been made in the removal of cattle with tuberculosis, infectious abortion and other diseases through the Government's disease eradication programs. All of these accomplishments should make for more efficient production. Furthermore, the culling aspects of the drought buying program offers an opportunity for considerable progress in improving the quality of production. This offers a challenge to the industry to hold the gains that have been made and to continue the improvement. When owners begin rebuilding their breeding herds, it is to be hoped that they will not lose the ground that has been gained by accumulating animals of inferior quality in their efforts to get back to their usual stride in the cattle business. The reputation for the production of high quality stock that some outfits and some areas in the West have established during recent years has reaped dividends through better outlets in Corn Belt feed lots and on the slaughter markets. It seems logical that this same advantage could be gained in much of the western cattle country.

The problems which I have mentioned, and perhaps many others, may become of increasing importance to the industry in the near future. They may or may not be of such a nature that material assistance can be rendered through the facilities of the Agricultural Adjustment Administration. I am sure the Adjustment Administration would favor a meeting of cattle producers representing all sections of the country sometime within the year for the purpose of considering the factors that are affecting or will likely affect the industry, and the possibilities of aid being rendered under the Agricultural Adjustment Act. However, whether or not an adjustment program should be adopted, is a matter for producers themselves to decide.